COMMENT / *By Sanford Rose*

Making Banks 'Universal' Can Improve Credit Quality

Oddly enough, one of the principal reasons for giving commercial banks investment-banking powers is to help them become better commercial banks.

That is, if we permit commercial banks to own corporate equity and underwrite all types of securities, they will probably end up doing a more effective job of monitoring commercial-loan credit quality than is now being done. As a result, fewer banks will fail, and the risk-adjusted returns of the banking industry will rise. Not insignificantly, broadening the securities powers of banks should also result in somewhat greater economic growth.

It cannot be denied that U.S. commercial banks are falling down on the job of managing credit risk. Current loan charge-offs for the average U.S. bank are more than 50% higher than at comparable stages of past business cycles, and the nonperformer ratio, though down from its peak in the mid- to late '80s, is still nearly twice what it was at the beginning of the '80s.

The Need to Update

The most plausible explanation for the deterioration in bank loan-monitoring capabilities emphasizes the interplay between changes in the external environment and the internal managerial reaction to these changes. In brief, it is argued that as the economy has become more volatile, the half-life of usable credit information has greatly shortened. In other words, the business fortunes of borrowers are changing far more rapidly than in the past, requiring banks to update their credit files more frequently.

Yet, as deregulation has eroded its profitability, the banking industry has become increasingly reluctant to allocate the funds needed to gather credit information in a timely enough fashion. Lacking current information, banks have been unable to identify credit problems as rapidly as they once did.

And, indeed, preliminary evidence suggests that the public marketplace is now more alert to deteriorating credit conditions than are many banks. In cases where borrowers have publicly traded debt as well as bank loans, the market often moves to lower debt ratings or bid down bond prices before the banks act to downgrade their internal loan ratings. Either the banks get the information after the marketplace or they get it before but somehow fail to act on it.

Early-Warning Capabilities

How will the acquisition of investment-banking powers improve the loan-monitoring capabilities of commercial banks? In countries like Germany, Austria, and Switzerland, where there is universal banking – i.e., no separation between commercial and investment banking – and in Japan, where there is a high level of de facto integration

between finance and commerce, the job of loan monitoring turns out to be quite a bit easier than in the U.S., points out Randall Pozdena, a vice president of the Federal Reserve Bank of San Francisco.

Being more closely tied to their borrowers, banks in these countries are apparently able to spot credit problems at an earlier stage than American banks. They are also able to take steps, including the removal of company managements, to correct these problems before they result in loan defaults and bankruptcies.

Pozdena argues that whereas a U.S. commercial bank's means of controlling adverse borrower behavior "are limited to invoking loan covenants and withdrawing loan funding, the underwriting relationship available to a universal bank enhances this channel of influence, since a company that performs badly on its loans is also at risk of losing access to reputable underwriting and hence to nonbank sources of funds."

Even more significant, the fact that the universal banks of Germany and the Japanese banks are able to own the equity of those to whom they lend immeasurably reinforces their "channels of influence." As equity holders, lenders can participate directly in a company's management, thereby influencing the decisions to take on risk. Says Pozdena: "In essence, holding some of the equity helps offset the incentive borrowers always have to take advantage of lenders by taking on riskier projects than these lenders anticipated."

An Irrational Fear

It is claimed that borrowers benefit from having stronger lenders. Why is it that the U.S. is the only major country with a venture-capital industry and a junk-bond market? Part of the answer, opines Pozdena, is that weak-collateral, low-net-worth U.S. firms often find it insuperably difficult to get adequate bank financing.

By contrast, in countries that allow universal banking, bank financing tends to be more readily available to the less well-heeled. Having greater influence over the management of these firms, foreign banks are much more comfortable lending to them than are their American counterparts.

So borrowers should welcome broader powers for lenders. However, some who claim to speak for them and for the public interest do not. Fearful of bank dominance of the economy, many Americans would be loath to end the separation of banking and commerce.

Yet this separation may be costing us more than we know. Economic historians attribute the rapid pace of development in Germany and Japan at least partly to the close relationship between industrial and financial firms. What's more, this relationship may have promoted more stable as well as faster

See **COMMENT** *page* **14**

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FUNNY MONEY / *By Tom Leander*

Arbor Day

Some financial institutions give away toasters to attract business. But American Mortgage Banking, Westbury, N.Y., has added a new twist to the giveaway craze by handing out trees.

With great fanfare, the Long Island mortgage company announced last week that each loan customer will receive "a two- to three-year-old deciduous shade tree with a one-and-a-half-inch trunk diameter." The customers will be encouraged to plant the trees in a drive to save the nation's tree cover.

The program, which the company says has been in the making for six months, was planned to coincide with a call from President Bush last week to increase the nation's tree cover by a billion trees a year for the next 10 years.

— Phil Roosevelt

* * *

Free Lunch

In 1990, the free lunch that J.P. Morgan Co. provides its nonofficer employees will cost the company a little less than in 1989. The average daily cost per person of Morgan's cafeteria-style lunch has been cut to $3.60, from $3.90 last year, notes a company memo. The reduction was made for tax reasons.

* * *

Bum Sets His Sights

After learning that thinking big can lead to disaster, H.R. "Bum" Bright is thinking small.

The crusty Texan combined InterFirst Corp. and RepublicBank Corp. to create First RepublicBank Corp., a $33-billion asset behemoth that subsequently failed.

H.R. 'Bum' Bright

Later he formed the $4 billion-asset Bright Banc Savings Association, by merging several small Texas thrifts. That institution also failed.

Now Mr. Bright has set his sights on the $7.1 million-asset State Bank and Trust Co., Dallas, the smallest bank in town.

But as befits his audacious personality, Mr. Bright is undaunted by the First Republic and Bright Banc catastrophes, and is intent on rebuilding his personal fortune.

"I'm looking to create a new garden," said Mr. Bright, "not dig through the garbage pail of the past."

— Steve Klinkerman

Is His Name Next?

Despite record earnings and a loyal customer base, a small commercial bank in Encino, Calif., has decided to change names to fix its public image problem. Lincoln Bancorp has been deluged by calls from customers who mistake it with Lincoln Savings and Loan, the Irvine thrift seized by regulators last year.

John J. Keating

"We've been pummeled by the bad publicity," says the bank's president, who admits that his own name, John J. Keating, may have added to the confusion.

* * *

Last Rites

Responding to the wave of fraud within his own industry, Henry A. Berliner Jr., president of Second National Federal Savings of Salisbury, Md., has suggested a "Dying Mother Test" for executives who face a tough ethical decision.

H.A. Berliner Jr.

In a speech to University of Michigan students Tuesday, Mr. Berliner asked executives to imagine that "the proposed course of action was the last thing that your dying mother heard from your lips. Would she approve?"

Mr. Berliner added that sharp practice in American finance has turned the phrase "business ethics" into an oxymoron like "military intelligence" and "healthy savings and loan."

* * *

Hooked

Federal Reserve Bank presidents rarely show their emotions in public, except when arguing issues relating to monetary stability.

But New York Fed President E. Gerald Corrigan was positively beaming following his remarks Monday night in Washington before the Financial Women International. Following his after-dinner dissertation on the need for financial restructuring, the officers of the trade group rewarded Mr. Corrigan with a bag of brand-new fishing lures.

E.G. Corrigan

"This is terrific," gushed Mr. Corrigan, a devoted fisherman, holding up a DareDevil lure. "This will catch just about anything."

— Robert Trigaux

CONSUMER NEWS

SMALL BUSINESS

Large Banks Ardently Court Corporate Market's Low End

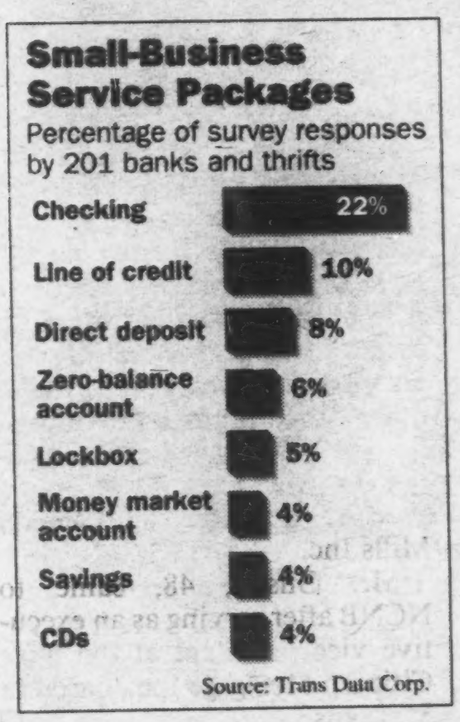
By LAURYN FRANZONI
Special to the American Banker

After years of neglecting the low end of the corporate market, larger banks are beginning to group services into attractively priced packages to win small-business accounts back from their own smaller competitors.

In the process of pursuing big and prestigious accounts, banks with more than $2 billion in assets have largely ignored the needs of small businesses, analysts say. Start-up banks and independents filled the breach.

But that is all beginning to change. Banks with $4 billion and more in assets are twice as likely to offer special service packages as banks with assets of $2 billion to $3.9 billion, according to research by Trans Data Corp., an *American Banker* affiliate in Wayne, Pa.

Small-Business Service Packages
Percentage of survey responses by 201 banks and thrifts



Source: Trans Data Corp.

Regional differences also come into play. Institutions in the north central and western states are more than twice as likely as their southern counterparts to offer special account packages for small businesses.

Of 200 banks and thrifts interviewed for the survey, 15% said they offered packaged services. The five products most likely to be included are commercial checking (by 22%), lines of credit (10%), direct payroll deposit via the automated clearing house (8%), zero-balance accounts (6%), and lockbox (5%).

Among the institutions offering packaged services, nearly half – 48% – indicated that their packages are specially priced, while 38% selectively discount the packages. But pricing alone does not move market share.

A 'Relationship Sensitive' Market

"While it is a price-sensitive market, we believe it is also the most relationship sensitive," said Kathleen C. Holmes, executive vice president of Furash & Co., Washington. Ms. Holmes has helped financial institutions review their product strategies for the small-business market.

"The bank has to help the small business to get ready to do business with the bank," she said. "That means standardized loan documents, standardized loan products packaged for access by the customer."

More than one-third of the institutions surveyed by Trans Data said they offer advisory services to their small-business customers. Banks are more than four times as likely as thrifts to provide these services.

Bankers in the North Central region are doing more to educate customers than those in Middle Atlantic institutions. Sixty-two percent in the northern region reported offering advisory services such as financial planning, marketing, and advertising advice, compared with only 19% of the institutions in the Middle Atlantic region. The most commonly offered advice is payroll management. Other popular services include employee-benefits planning, tax planning, accounting and legal advice, and personnel counseling.

Three-fifths of all banks and thrifts offer this advice separately for a fee, while 18% offer it at no additional cost to depositors.

Few Offer Specialized Branches

These advisory services are more likely to be offered to customers than are special, "small-business-only" branches, which are operated by only 4% of those surveyed. And only 1% said they have special small-business facilities within branches to serve this target group.

Whether the dedicated branch becomes more prevalent will depend on where the small-business group falls within bank management structures. The Trans Data research and other surveys indicate that the industry is split fairly evenly at this point over the placement of small-business units.

Banks that already have a dedicated small-business staff are far more likely to offer dedicated facilities and services than those that still service small-business customers from within existing lending groups.

Profitability Gets Good Rating

Even though these customers are now demanding more services and attention, about half of banks and thrifts rate the profitability of their small-business operations as "good to extremely good."

"Frankly, if you use good quantitative analysis, process management, and solid product engineering, the margins in this business should be substantially fatter than corporate services," said Wells Fargo executive vice president Douglas Freeman. "The challenge is to be careful so loan losses don't erode the margin."

Ms. Franzoni is a freelance banking reporter in Springfield, Mo.

U.S. Card Concerns Target Europe

Small Businesses Expected to Thrive, Need Services

By ELLEN MEMMELAAR

NEW YORK — Major U.S.-based credit card companies are setting their marketing sights on the European Community's burgeoning small-business market.

Sources close to Visa International said it will launch a card this month with add-on services tailored to smaller European companies.

And American Express Travel Related Services Co., which has promoted a small-business card service in Britain for six years, is preparing advertising campaigns for selected markets on the Continent as well.

MasterCard International, which has a strong business card effort in the United States, is also expected to expand in Europe.

Diners Club International is looking into the small-business market, said John Stout, London-based vice president for marketing in Europe, the Middle East, and Africa. But the Citicorp travel-and-entertainment card subsidiary "is a long way off from a pan-European product designed for small businesses," he said.

The economic unification of the 12-nation European Community in 1992 is seen as boosting small-business growth.

Already, Europe is seeing an entrepreneurial boom like that which hit the United States in the 1980s. The community has 25 million small businesses, accounting for more than 95% of all companies, according to Russell Prince, president of CSSP Technologies, a New York-based consulting company.

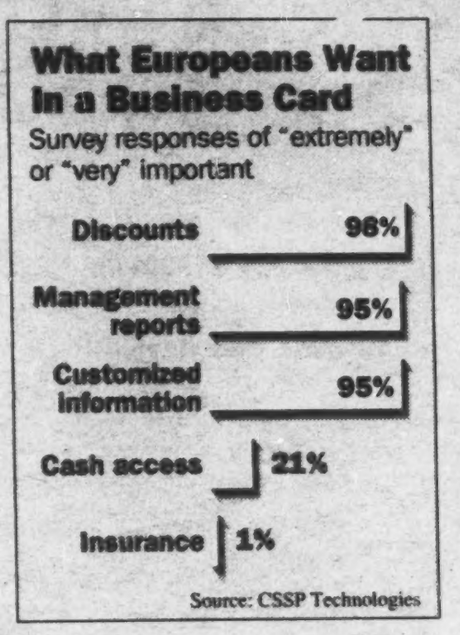
Raising Venture Capital

The 12 nations raised more than $5.1 billion in venture capital in 1987, which is $200 million more than U.S. companies raised the same year.

The removal of tariffs and border restrictions will give smaller businesses easier access to a market of 320 million people – which is larger than either the United States or Japan.

"The removal of barriers will help small businesses exploit other markets over the long term," said Richard Cullen, head of product development at Visa in London.

What Europeans Want In a Business Card
Survey responses of "extremely" or "very" important



Source: CSSP Technologies

Small-business spending on travel is $150 billion a year, not including $200 billion for restaurant and gasoline bills, according to Mr. Cullen.

Mr. Prince said about 17 million Europeans incur business expenses and 97% of small-business owners would now acquire a credit card, provided its annual fee were not significantly higher than those on personal cards. He based his conclusions on a survey of 387 small-business people in six nations.

"Big, private-sector industries do not exist in a lot of these places now, so the economy will be driven by smaller businesses," said Mr. Prince. He estimated that Europe would see $1.5 trillion in total purchases by small businesses between now and 1992.

But marketing of credit cards aimed at small to medium-sized businesses is almost nonexistent. Few such products exist, and their structures vary widely by country and bank.

The Visa product, although not mandatory for association members, will unify products under a single logo and marketing approach, said Mr. Cullen.

The Visa card will come with a variety of travel and entertainment benefits, including an emergency message service and document-courier service anywhere on the globe.

In Britain, American Express recently made membership in the Royal Automobile Club automatic for business customers, giving access to a nationwide repair service.

A Banking Connection

Visa's focus on the business-card market is not new. Eight months ago, it launched a management information system called the Business Card Response System. This gives detailed reports on expenditures by company employees.

Asked about his competitors, Mr. Cullen said neither American Express nor Diners Club has access to the 2,500-bank European network that Visa does or the banking relationships that go with it.

"You don't want to sell a credit card. You want to sell a package of services," said Mr. Prince, the consultant. "Small companies are always looking for information that will better enable them to handle their businesses."

Indeed, information services came up as one of the most valuable characteristics of a credit card product in a survey of European small businesses done by CSSP Technologies.

Customized Newsletters

Mr. Prince said he advocates customized newsletters to deliver information to European cardholders. Businessmen are very concerned about financial matters, products, and services that relate to their industries, the survey found.

A newsletter "can be cost-effective, and the fact that you offer a service at break-even makes you look so much the better," he said.

Research by Mr. Prince also showed that European businessmen prefer one multipurpose card to a variety of credit, debit, and check-cashing cards. The best card, he said, would be usable for any type of payment and would be tied to an interest-bearing money market account. □

AMERICAN BANKER /Bank Rate Monitor's™

Consumer Money Index — Highest Retail Yields and Jumbo Rates

These are the highest jumbo CD rates ($100,000 minimum deposit) and retail CD yields (for the lowest deposit required to open the account) offered on Feb. 7, according to the "100 Highest Yields" and "Jumbo Flash Report" consumer-investor newsletters. The star ratings are supplied by Veribanc Inc. of Wakefield, Mass., which evaluates the financial condition of insitutions using third quarter, 1989 data ffrom ffederal regulators. Veribanc assigns 0 (lowest) to 3 (highest) stars to the institutions. Information from Veribanc is believed to be reliable, but the accuracy, adequacy and completeness of the information is not guaranteed.

Retail Yields

Six-month		
Maine Savings Bank, Portland		8.89%
Columbia S&L, Irvine, Calif.		8.65
Home Owners Svgs, Burlington, Mass.	★	8.64
First Mutual Bank, Boston		8.57
The Bank Mart, Trumbull, Conn.	★	8.57
One-year		
Home Loan & Inv. Bank, Providence, R.I.	★★★	8.80%
Bank of New England, Boston		8.77
Maine Savings Bank, Portland		8.72
Home Owners Svgs, Burlington, Mass.	★	8.64
NVR Federal Svgs, McLean, Va.	★	8.60
Five-year		
The Bank Mart, Trumbull, Conn.	★	9.00%
Washington Svgs Bank, Waldorf, Md.	★★★	8.78
Eastern Svgs Bank, Hunt Valley, Md.	★★	8.75
NVR Federal Svgs, McLean, Va.	★	8.75
Maine Savings Bank, Portland		8.72

Jumbo Rates

Six-month		
First State svgs, San Antonio		8.65%
Westwood S&L, Calif.		8.65
Resource Savings, Dallas		8.60
First South Svgs, Houston		8.60
Platt Valley Fed. S&L, Scottsbluff, Ne.		8.60
One-year		
Calif. Thrift & Loan, Santa Barbara, Calif.	★★★	8.69%
First State Svgs, San Antonio		8.50
Bank of New England, Boston		8.50
First Network Svgs, Los Angeles	★	8.50
First Mutual Bank, Boston		8.50
Five-year		
Bank Hapoalim, Chicago		9.00%
Meritor Svgs, Philadelphia	★	8.60
Chase Manhattan Nat'l Bank, N.Y.		8.55
Chemical Bank, Jericho, N.Y.	★★★	8.50
New South Fed. Svgs, Birmingham, Ala.	★★★	8.45

Source: ©Bank Rate Monitor, North Palm Beach, Fla. 33408. All inquiries: (407) 627-7330

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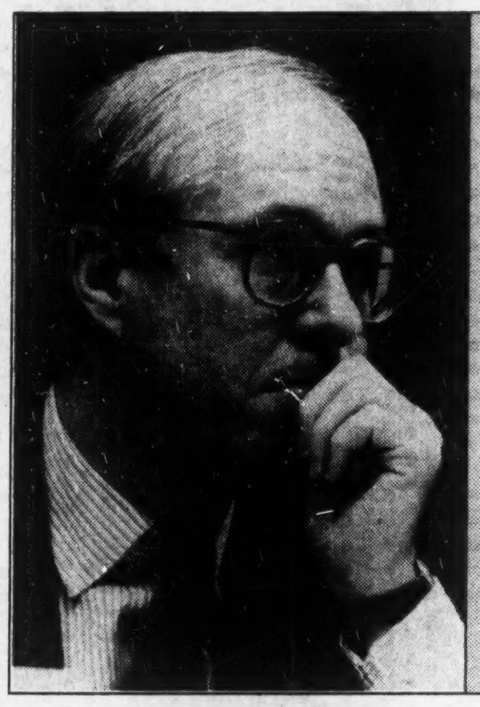
Kearney Exit Seen as Blow to RTC

Resignation Cuts Credibility of Bush S&L Cleanup



Louise Krafft

Kearney's RTC Woes

- Bureaucracy and infighting mired the agency.
- A dispute on how to raise working capital has dragged on for months.
- Red tape discouraged investors, slowing S&L sales.
- Key RTC posts remain unfilled.

By BARBARA A. REHM

WASHINGTON — Daniel P. Kearney's abrupt resignation Friday from his job overseeing the Resolution Trust Corp. is being viewed as the latest and most embarrassing proof yet that the government's blueprint for cleaning up the thrift industry is seriously flawed.

Critics have lashed out at the RTC almost since its inception last summer, saying bureaucracy and infighting were crippling efforts to sell or liquidate billions of dollars of seized thrift assets. Mr. Kearney's departure, because of what he considered excessive interference by the Treasury Department, deals a severe blow to the government's already low credibility.

"The disarray and the indecision are now publicly evident and this will do nothing but increase the cost of the bailout and delay the resolution of pending cases," said Rep. Henry B. Gonzalez, chairman of the House Banking Committee.

The Texas Democrat added that the resignation is "more evidence of the growing disarray in the Bush administration's implementation of the savings and loan bailout."

Exit May Firm Anti-RTC Mood

John D. Hawke Jr., a partner with Arnold & Porter, said Mr. Kearney's exit might help consolidate opinion that the organization set up to implement the bailout is the very thing that is keeping it from occurring.

"There is need to revamp the structure," he said. "It is such a cumbersome operation that it has really become catatonic."

Mr. Kearney's resignation as president and chief executive officer of the RTC oversight board, which sets policy for the agency, stemmed from a dispute with senior Treasury officials, especially John Robson, the deputy secretary.

"I have concluded that the role of president and CEO does not currently afford me the authority that I believe is essential

See **KEARNEY** *page* **7**

Rival Thrift Trade Groups Talk Merger – Informally

By WENDY GROVER

NEW YORK — Facing rapid declines in membership, the two rival thrift trade associations are considering a merger.

Officials of the U.S. League of Savings Institutions and the smaller National Council of Savings Institutions said last week that they are discussing a merger only in a preliminary way. The idea may gain momentum this week when several thrift executives plan to confer in New York.

"We'll talk about it as individuals," said National Council chairman David Sullivan. They will not officially represent the trade groups or their individual members, he said.

Necessity Presses Them

Although officials said a formal merger agreement is not imminent, the two organizations may reconcile their longstanding policy differences out of necessity. Each association has lost well over 100 members this year, from Jan. 1 totals at the U.S. League of 2,754 and at the National Council of 479.

The Possible Partners

	U.S. League	National Council
Year founded	1892	1983*
Annual budget	$30 million	$9.5 million
Employees	450	55
Member thrifts at yearend	2,754	479
Decline in membership since Jan 1	179	111

*Created from merger of National Association of Mutual Savings Banks (1920) and National Savings and Loan League (1943)

Source: Associations and American Banker

"When you've tried to promote your own services as superior, it takes a little time to change the attitude and say, 'Maybe these are our friends, and we should join them,'" said Kenneth Seaton, chairman of the U.S. League, in an interview.

See **RIVAL** *page* **13**

Foreign Rates, Inflation Fears Hobble the Fed

By ROBERT TRIGAUX

WASHINGTON — Fears of inflation in the United States and continued high interest rates abroad appear to have all but killed opportunities for the Federal Reserve to ease its monetary policy anytime soon.

The Fed, whose Federal Open Market Committee met last week to set credit policy, will continue to target the federal funds rate at 8.25%, despite signs that the economy is continuing to droop, analysts forecast.

James P. Winder, economist at Merrill Lynch Capital Markets, believes "monetary policy was left unchanged at the FOMC meeting last week."

ANALYSIS: *Follow-up on the news*

"Concerns about inflation at home and rising interest rates abroad give policymakers no room to address the weakness in the U.S. economy," he said.

Wholesale prices surged 1.8% in January, the biggest jump since the 1974 energy crisis and again fueled by a huge increase in oil and gas prices, the government said Friday.

With such inflationary numbers, "How can the Fed ease?" asked Robert A. Brusca, chief economist at Nikko Securities Co. International in New York.

Adding to rate pressures are Japan and West Germany, whose high rates make it even more difficult for the Fed to lower domestic rates and still attract needed foreign investors. Japanese rates are expected to inch upward in anticipation of its Feb. 18 elections. West Germany, suffering a recent bout of inflation and the added instability of East Germany's future, is expected to keep rates high.

Bad News for Banks

Such pressures on the Fed to keep rates up will hurt financial institutions hopeful that further easing in the near term might avoid a recession and spur credit demand. But, some analysts argue, higher rates may help those institutions by bolstering a nervous bond market that views any further Fed easing as a sign that it is caving into recession fears before it has gotten a handle on inflation.

"The Fed will not move on its short-term policy," said Richard C. Trainer, vice president and senior economist at the Bank of Tokyo in New York. "If the Fed eases too soon, and breaches Greenspan's gradualism of monetary policy, it will trigger the psychology of worsening in-

See **INFLATION** *page* **13**

INSIDE NEWS

INTERNATIONAL

CENTRAL BANKERS and economists worry that the funding needs of Eastern Europe might cause a protracted bout of high interest rates throughout the European Community. *Page 10*

FINANCE

OLD STONE CORP. stock has managed to advance this year while other thrift issues have headed south. Still, the share price is 54% below what it was June 30. *Page 16*

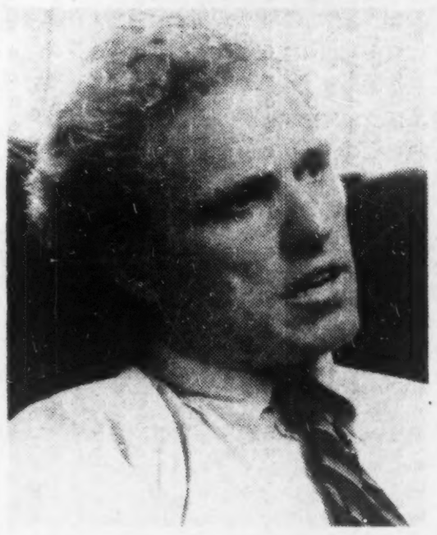
CONSUMER

BANK OF NEW ENGLAND plans to go after consumer deposits with an ad campaign that gently reminds the public its accounts are protected by federal insurance. *Page 6*

TECHNOLOGY

BANKS AND OTHER financial firms are not fully exploiting information technology, according to a survey of systems managers in the United States and Europe. *Page 3*

WASHINGTON



REP. JOSEPH P. KENNEDY, D-Mass., a thorn in the side of the banking industry since he pushed for disclosure of lending patterns last year, is now taking up the cause of Third World debt reduction. *Page 8*

COMMENT

THE BEAR MARKET in bank stocks has lumped strong institutions with weak ones, causing frustration among managers of healthy companies. *Page 4*

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Bank Helps Crack a Laundering Operation

By KAREN GULLO

NEW YORK — Employees at a branch of Key Bank in Newburgh, N.Y., helped drug enforcement agents crack a major money-laundering operation in New Jersey with ties to Panama and Colombia, a federal prosecutor said Friday.

U.S. Attorney Samuel A. Alito Jr. in Newark, N.J., said the bank's actions were instrumental in bringing charges against 25 people and five international corporations for conspiring to violate U.S. currency laws.

Federal officials said that if the charges are proved, it will be the largest money-laundering crime ever prosecuted in New Jersey, but they did not disclose the total dollar amount.

Conviction Last Year

The U.S. attorney last year won a conviction against Roberto Calleja, a former manager of the Forest Hill office of First Fidelity Bank, Newark, for helping to launder an estimated $6.5 million to $11 million between 1982 and 1985.

Mr. Alito said one of the defendants in the current case mailed $73,000 in checks and money orders to the Key Bank office, requesting that they be deposited in an account held by Paulina DeQuintero, a Colombian woman. Suspicious bank employees contacted the Internal Revenue Service in Albany,

See **BANK** *page* **13**

PEOPLE *in the news*

Sense of Humor Misfires For a Top Money Manager

By KENNETH CLINE

ATLANTA — William R. Hackney 3d is best known by friends and acquaintances for his sense of humor. But last week he wasn't doing much laughing.

The chief investment officer with First Union Corp.'s capital management group wrote a tongue-in-cheek article for the bank's investment newsletter "Vision" in which he referred to Germans as "Huns" and Japanese as "Nips." Mr. Hackney intended to satirize American fears of foreign investment, but some readers missed the point and complained about the unflattering terms he used for two of the top trading partners of the United States.

The Charlotte, N.C.-based banking company later apologized for the article.

A First Union spokesman said Mr. Hackney, 41, would not be available to speak with reporters. But friends and acqaintances of Mr. Hackney said he is well known for his sense of humor and probably never intended to offend anyone.

"Everybody that knows him knows that's not the way he meant it," said Clifton McIntire, a broker with Shearson Lehman Hutton in Charlotte.

A stock analyst, who did not wish to be identified, said he remembered Mr. Hackney from the late 1970s, when he had handled First Union's investor relations. "I think he's perceived as someone who has a sense of humor and is given to writing that way," the analyst said. "As I recall, he's outspoken, and I think we had some laughs."

Mr. McIntire worked with Mr. Hackney at E.F. Hutton from 1980 to 1982, when Mr. Hackney was Hutton's regional research director in Charlotte. The two men remained friends after Mr. Hackney returned to First Union, where he had worked in the trust division from 1974 to 1980, and have talked since the newsletter flap became public early last week.

"He's a good guy, very level-headed, and sorry they took it that way," Mr. McIntire said. "I wouldn't say he's upset about it, but no one likes people to misinterpret them, and if there was some misunderstanding out there, he would be bothered by that misunderstanding."

According to Mr. McIntire, Mr. Hackney uses satire in his newsletter articles to simplify complicated financial issues. "He's always got something in there of trying to use an analogy that somebody can understand to get his point across," Mr. McIntire said. "Most of the people that follow him like him and understand what he means."

Since 1982, Mr. Hackney has managed First Union's capital management group, where he is ultimately responsible for $7 billion in common stock, bond, and money market investments for individual, corporate, and institutional clients.

The group's equity fund performance has placed it among the top 10% of money managers nationally during the past five years, according to First Union. Mr. Hackney's articles in the *Vision* newsletter are intended to provide investment advice.

A native of Charlotte, Mr. Hackney earned a bachelor's degree from the University of North Carolina at Chapel Hill. He earned a master's degree in business administration from the Citadel while serving as an officer in the U.S. Marine Corps. He is a chartered financial analyst. □

NEWS *briefs*

Iowa Gov. Branstad Signs Bill for Interstate Banking

CHICAGO — Iowa Gov. Terry Branstad signed a bill opening the state to interstate banking with neighboring states, his office said.

The law, which takes effect Jan. 1, 1991, allows banks in Missouri, Illinois, Wisconsin, Minnesota, South Dakota, and Nebraska to buy Iowa banks.

Fleet/Norstar Announces Trust Unit Consolidation

PROVIDENCE, R.I. — Fleet/Norstar Financial Group Inc. has consolidated trust and investment management activities of its eight New England and New York banks and trust affiliates, said J. Terrence Murray, chairman and chief executive.

Named to head the trust and investment line of business was Robert J. Higgins, a Fleet/Norstar executive vice president. He is also president and chief executive officer of Fleet National Bank, Providence, the company's largest banking unit.

All investment officers of the former Norstar Investment Advisory Services (Norvest), Rochester, N.Y., and of Fleet/Norstar's banks, have been named officers of Fleet/Norstar Investment Advisors Inc.

James A. Knauf Jr., who had been president of Norvest, was named president of the New York division of Fleet/Norstar Investment Advisors. Harold A. Mackinney Jr., executive vice president the trust and investment division of Fleet National Bank, was named president of the New England division.

Florida Bank Acquisition Completed, Synovus Says

COLUMBUS, Ga. — Synovus Financial Corp. announced that its acquisition of the $50 million-asset Bank of Pensacola, Fla., has been completed.

Synovus is a $2.4 billion-asset, multifinancial services company based in Columbus. □

Feud Brews Over Stock in Freddie Mac

By PHIL ROOSEVELT

NEW YORK — A move by the Federal Home Loan Mortgage Corp., or Freddie Mac, to retire some its stock has pitted the agency in a bitter war of words with the 12 Federal Home Loan banks that hold the shares.

The presidents of the banks are calling Freddie Mac selfish and uninformed. The mortgage agency, in turn, says the presidents are ungracious.

At issue are 100,000 shares of nonvoting stock in Freddie Mac that were issued to the 12 banks in 1970 for the mortgage agency's initial capitalization. Saying the original purpose of the issue has been served, Freddie Mac last week announced it would retire the stock – at the original price of $1,000 a share.

The 12 presidents claim the repurchase should reward their banks with some substantial price appreciation – though they do not specify how much.

Brendsel Cited

Thurman C. Connell, president of the Federal Home Loan Bank of Des Moines and head of the caucus of Home Loan bank presidents, took direct aim at Freddie Mac's chairman and chief executive.

"When Leland Brendsel, the newly elected board chairman, boasts that Freddie Mac has made enormous strides in 20 years, he neglects to state that his board has chosen to ignore the interests of the very Home Loan banks that gave birth to Freddie Mac," Mr. Connell said in a statement distributed on behalf of all the presidents.

A Freddie Mac spokeswoman said, "We take extreme exception to [the presidents' statements] – not only to their arguments, but to the tone." The statements, she added, are "extremely ungracious." □

Marine Midland Posts A $120 Million Loss

By GORDON MATTHEWS

NEW YORK — Marine Midland Banks Inc. posted a fourth-quarter loss of $119.9 million after more than doubling its provision for loan losses. For the full year, the company had net income of $13.9 million, down 91% from a year earlier.

Marine Midland's provision in the quarter was $263.3 million and included a $175 million special reserve against domestic loans. A bank spokesman declined to say what portion of this concerned highly leveraged transactions.

In the quarter a year ago, the provision totaled $102.6 million. That included an added reserve against foreign loans.

Move Is Explained

Marine called the move a "prudent step to insure that Marine's domestic loan-loss reserve remains appropriate in light of uncertainty in the economic outlook." Without the special charge to profits, net income would have been $43 million in the fourth quarter and $177 million for the full year.

Marine said the weak commercial real estate market was responsible for most of the $245 million increase in fourth-quarter nonperforming loans compared with last year's figure. The bank also said the higher level of fourth-quarter chargeoffs was primarily attributable to commercial real estate loans.

In both the quarter and the year, Marine said basic banking franchise posted strong gains, and that income from fees and services charges was higher while operating expense growth was moderate.

Marine is wholly owned by Hongkong and Shanghai Banking Corp. The $27 billion-asset company is the nation's largest foreign-owned banking subsidiary. □

MARINE MIDLAND BANKS INC.
New York
Dollar amounts in millions (except per share)

FOURTH QUARTER	4Q '89	4Q '88
Net income	($119.9)	$41.2
Per share	NA	NA
Net interest income (tax. equiv.)	242.4	315.0
Spread	3.84%	5.15%
ROA	(1.75%)	0.62%
ROE	(43.84%)	15.36%
Noninterest income	113.8	71.0
Noninterest expense	232.2	221.6
Loss provision	263.3	102.6
Net chargeoffs	185.9	56.9

FULL YEAR	1989	1988
Net income	$13.9	$160.5
Per share	NA	NA
Net interest income (tax. equiv.)	1,006.8	1,036.3
Spread	4.06%	4.31%
ROA	0.05%	0.61%
ROE	(0.05%)	16.35%
Noninterest income	393.0	313.6
Noninterest expense	940.9	901.8

BALANCE SHEET	12/31/89	12/31/88
Assets	$27,066.5	$25,964.1
Deposits	16,325.6	17,340.8
Loans	21,720.0	21,621.7
Shareholder equity	1,178.5	1,179.0
Loss reserve	952.6	928.3
Reserve/loans ratio	NA	NA
Nonperf. loans	1,203.4	958.2
Nonperf. loans/loans	5.31%	4.25%
Primary capital ratio	9.13%	9.39%

Corrections

Page one articles on Feb. 3 and Feb. 9 incorrectly reported how regulators are defining highly leveraged transactions. A loan must be classified as financing a leveraged transaction in two cases: when it pushes a company's liabilities higher than 75% of its assets, or when a company's total debt doubles as a result of the loan and its total debt exceeds 50% of assets.

■

A Feb. 9 article ("Fuji's Heller Taking Stake in Hungarian Merchant Bank," page 10) misstated the capital of a new Hungarian merchant bank in which Heller International Corp. will be taking a stake. The correct amount is $16 million. □

COMPANY *index*

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